

Commentary

THE BUFFIN FOUNDATION

SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

Britain's Post WW2 Economic Recovery Profiles in Leadership: Hugh Dalton

Hugh Dalton served as Britain's Chancellor of the Exchequer from 1945-47 with the responsibility for managing the transition from Britain's wartime economy to a peacetime framework. Dalton was a prominent Labour Party leader and renowned economist of his time; he is best known for his theory on income, known as the Pigou-Dalton principle, presented in a 1920 paper. He shaped much of the Labour Party's foreign policy in the 1930's and served in the wartime coalition cabinet as Minister of Economic Warfare from 1940-42. Dalton had strongly opposed the Labour Party's traditional pacifist views and urged the adoption of a policy of armed deterrence. Together with Attlee, Morrison, Bevin and Cripps, Dalton is known as one of the "Big Five" of Attlee's Labour government, a formidable group of great leaders, whose diverse backgrounds and skills provided the leadership for Britain's post-war economic recovery. It is widely acknowledged that Dalton's success as Chancellor of the Exchequer in implementing the Labour Party's economic policies, including the nationalization of industry, helped in the achievement of Britain's remarkable economic recovery in the post-war period.

Upon appointment as Chancellor of the Exchequer in 1945, Dalton faced several major challenges. These issues included the transition to a peacetime economy, the nationalization of industry, maintaining full employment, curbing inflation, and extending social welfare services as promised in the Labour Party election campaign manifesto. Dalton, together with other Labour government officials, advocated several social policy programs while in office, including social security, health insurance reform, taxation of the wealthy, and most importantly, public ownership of industries. One of the first actions of Dalton as Chancellor in 1945 was directed at the

Bank of England, placing it under public ownership. But transitioning from a wartime economy to one of peace represented the greatest challenge of the recovery plan. During the war, Britain had managed its economy through wartime production; after the war, however, new jobs were needed as the production of military equipment was phased out. Dalton also had to address the country's newly mounting international debt. As the United States Lend Lease program ended in 1945, Keynes's work in securing a new loan from the US became even more vital in order to help stimulate the country's recovery. Dalton played a leading role in obtaining new US lending for Britain; he drafted the conditions for Britain's acceptance of the loan and aided Keynes in getting the loans approved by Parliament. However, Dalton knew that this loan, too, would eventually expire, and warned Parliament of this far in advance. Dalton believed that massive foreign aid was needed to help revive the economy but was wary of the conditions imposed by the US on the granting of the Keynes loan and its effect on the pound's stability.

Dalton introduced a stringent policy of food rationing in 1947 as one of his budget measures. The austerity caused by the imposition of food rationing on the British population was burdensome, but was intended to help restore the nation's economy. During his tenure as Chancellor, Dalton introduced four Budgets over the years from 1945-47. He skillfully guided national economic production and fiscal policy to achieve budget objectives. Higher taxes on the wealthy lessened the burden on low-income workers; under Dalton's new taxation regime, 2.5 million workers were removed from the tax system. Dalton also increased food subsidies, heavily subsidized property rents, lifted restrictions on home construction, established financial assistance for rural communities and other areas

affected by the war, and most importantly, financed national assistance and family allowances for the Labour Party's welfare initiatives. Food subsidies remained high at wartime levels in order to keep living costs from rising. The funding Dalton provided for the welfare initiatives allowed Britain to have a better social security system, including health insurance, and even allowances for Child Benefits for the first time. Dalton's successful budget management and fiscal policy enabled increased food subsidies, additional funding for education, including free lunches and milk at schools.

Hugh Dalton's tenure as Chancellor of the Exchequer covered an extremely difficult period for the British economy. Dalton was involved in a lengthy struggle with the Sterling Convertibility Crisis of 1947. His moves to cut dollar imports reduced pressures on the British Pound and lessened the effect on the British economy. Dalton's Budget plans did a great deal to help with the economic recovery of the nation after the war, especially considering that he and the Labour cabinet inherited a faltering, war-torn economy which none of them had ever experienced before. Dalton showed commendable leadership in tax policy and budget planning, as well as compassion and commitment towards teaching the younger generation of politicians and economists. Thanks to his efforts, inflation in Britain during the post-war period was much lower than in other countries, and the nation managed to rebuild its economy again on the path to full recovery.

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